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Patterson, George Stuart

The fifteen per cent case

Philadelphia

[1917]

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BEFORE THE

Interstate Commerce Commission.

THE FIFTEEN PER CENT. CASE.

DOCKET EX PARTE. No. 57.

Supplemental Hearings November 5th—19th, 1917.

ARGUMENT OF GEORGE STUART PATTERSON ON BEHALF OF EASTERN CARRIERS.

OPENING ARGUMENT.

Mr. Chairman and Gentlemen of the Commission, may I ask your earnest attention to this brief statement of what are the facts in this matter?

The Eastern carriers are at the present time on an annual increased basis of cost over 1916 of $278,000,000 a year, of which $103,000,000 is represented by labor, $86,000,000 by fuel, and $89,000,000 by the cost of materials. This figure of $278,000,000 does not include anything for the

increased taxes which the carriers will have to pay this year and in the future, approximated, at the present time, for the Eastern carriers at $19,000,000 per annum; nor does it include anything to represent the increased cost of the capital when the carriers shall be able to obtain such capital; nor is there any increment representing the increased depreciation charges which will have to be made in the future on account of the present increased cost of equipment.

As against this figure of $278,000,000, the Commission have already this year, since January first, granted increases in rates which will approximate $97,000,000 or $98,000,000. The increases of the remaining rates which were not increased last spring, and which are now immediately before you today, will probably produce revenue (on that same basis) of $57,000,000 or $58,000,000, this leaving $123,000,000, which will have to be made up by the carriers if they are to be in a position in which they can meet the events of today and the necessities of the future.

It will, therefore, be necessary for the carriers to make application for further increases in rates, and, as I assume that the Commission would require that a hearing be had before such increases were granted, applications will be filed in due course by the Eastern carriers, asking for further increases in rates, in order that they may be

enabled to secure the revenue which they so sorely need.

This point I want to make clear and bear in mind through this entire discussion, viz., that the completion of the balance of the 15 per cent. program will not afford the carriers those revenues which the public interests demand.

So far as it is humanly possible to look into the future, it is clear that the present cost of conducting transportation and the present cost of the maintenance of these properties will not decrease. In fact, whatever evidence there is on the subject would seem to indicate that the basis of cost, in labor, at least, will increase.

COMMISSIONER CLARK:—Mr. Patterson, you stated that the carriers were on an increased operating basis, involving $278,000,000?

MR. PATTERSON:—Yes, sir.

COMMISSIONER CLARK:—And you said what would probably be realized from the increases in rates. Now, you have not said anything about whether or not there is any increased net to offset any part of the increased costs.

MR. PATTERSON:—I am going to deal specifically with that question, sir, when we come to the figures, which show the results of the current nine months' operation, and also the results of the year ending June 30, 1917. They show the practical result of the increases allowed.

Now, if it please the Commission, as our armies increase into the million, as the carriers are called upon to meet the competition for labor of industries whose prices are regulated or unregulated, as the carriers are called on to meet the competition of the government itself in the labor market, it is clear that neither the supply nor the efficiency of labor will increase, and, therefore, for some time to come, we must, unless the government is prepared to both conscript labor and to limit its wage—and I do not suggest that it should do either—unless the Government is prepared to do that, it is quite clear that labor, measured both by its price and by its efficiency, will substantially increase in cost to the carrier.

In the case of fuel, the Government fixed the price originally at $2.00 a ton, which was from 70 to 80 per cent. higher than many if not most, of the carriers were paying. That price has now been increased by the Government to $2.45 a ton, which is higher than the contract price, even at the present time, of many of the carriers, and which increase has had this further effect. The increase from $2.00 to $2.45 a ton carries with it an increase of wages to the miners, and under the terms of the contracts of many of the carriers, an increase in the rate of pay to the miners automatically increases the price of coal to the purchaser. Therefore, so far as the fuel situation is

concerned, the only relief that can come at any time in the future is upon the expiration of existing contracts, and upon the assumption that, in the meantime, the government does not again raise the price of fuel at the mines.

The situation with respect to materials, though more complex in its operation, is identical in its results.

The upward tendency of the price of certain materials seems to have been halted. The prices fixed by the Government are, generally speaking, far above the prices paid by the carriers in 1916, and, therefore, for the purposes of discussion, it is a conservative statement to take as our estimate of increased basis of cost, the figures we had last May, of $89,000,000. There is, however, the testimony in this record of many of the witnesses as to the higher prices which they have been and are now paying, at this time.

We cannot therefore, unless we are to blind our eyes to the plain facts, fail to recognize that the eastern carriers are on a much higher basis of operating costs, than they, or any other carriers have ever been in this country. As Mr. Norris said on Friday, we are in the position of the manufacturer who has had his raw material, namely, fuel, labor and material raised in price. To meet that, he must raise the price of his finished product—in our case, transportation—and that is what we are asking you to do.

Now, what has been the result of this increased basis of cost to the carriers? There are three sets of figures which are available for the use of the Commission. Those figures are, first, the operations of the first nine months of the calendar year 1917 as compared to the corresponding months of the preceding year; secondly, the results of the year ending June 30, 1917, as compared with previous years; and, third, the estimate of what will be the result of the calendar year 1917 as compared to previous years.

1917 is the year of largest gross revenues in the history of the carriers. There never has been anything like it. We would naturally expect, as the result of that tremendous increase in gross, to see, as we did in 1916, when the same phenomenon was observed, that there would be a large increase in net. The contrary is the fact.

In the case of the 38 systems, in the first nine months of 1917, gross increased $123,000,000, which should have afforded a substantial increase in net. The fact is that net decreased $57,000,000. In the case of the so-called typical systems, the Baltimore and Ohio, the New York Central, and the Pennsylvania, gross increased $70,000,000. Net operating income decreased $38,000,000.

When we had this case before you last spring, you only had the figures available for the first four months of 1917. The figures for the last

five months are now available, and they show an increase in gross of $92,000,000 and a decrease in net of $20,000,000.

COMMISSIONER ANDERSON:—Mr. Patterson, are you speaking of the year ending June 30, 1917, or of the nine months of the calendar year 1917?

MR. PATTERSON:—The nine months of this calendar year. I am speaking now of the calendar year, that is, the first nine months of 1917.

Beginning with June and continuing up to and including September, every month has shown a larger decrease in net operating income, and every month has shown a smaller increase in total operating revenues. August, in which were effective the increased rates granted by the Commission on export grain, export iron and steel, tidewater coal, lake coal, line coal, ore, and many of the class rates, but not all, showed an increase in gross of $20,000,000 and a decrease in net operating income of $3,750,000. And, mark you, in each one of these months there has been a large increase in both the trainloads and the carloads.

THE CHAIRMAN:—That figure for August of $20,000,000 increase in gross and a corresponding decrease in net was as compared with the preceding month?

MR. PATTERSON:—The preceding year, sir.

THE CHAIRMAN:—The corresponding month in the preceding year?

MR. PATTERSON:—The corresponding month in the preceding year, yes. In other words, the comparison is being made on the same basis as is the comparison contained in the monthly reports of the carriers to the Commission.

September shows an increase in total operating revenues of $16,000,000—$16,400,000, if I remember correctly—and, again, a decrease in net operating income of $6,400,000.

The October figures are not finally completed, and are not available as yet to the Commission; but if the figures for the 38 systems are similar to the figures for the Pennsylvania Railroad System—and there is no reason to doubt but that will be the fact—you will find that October will also show large increases in gross and large decreases in net.

Now, you will remember that a few minutes ago I said that in these first nine months the operating revenues increased $123,000,000. During that same period of time—and I am speaking now of the 38 systems—the transportation expenses alone—primarily, of course, labor and fuel—for the 38 systems increased $127,000,000, and in the cases of three systems the total operating revenues increased $71,000,000 in that same period, and other transportation expenses increased $73,000,000. That is to say, as a practical matter, though, of course, it is not technically accurate,

the increase in revenue which has been derived not only from the increased business, but also from the increase in the rates granted by this Commission, has been entirely taken up and entirely absorbed in the cost of transportation, leaving nothing from either increased business or increased rates to contribute to the cost either of maintaining these properties or to the cost of procuring the necessary capital to make additions and betterments.

It is not necessary to refer in detail as to the increased items of particular costs in transportation expenses, because that has been covered at length in previous hearings and in this hearing; but I want to call your attention to one thing, and that is that labor, not the four Brotherhoods, not the labor which was affected by the Adamson Act adjustment, but other labor, has increased in cost to the carriers $26,000,000 since the hearing took place in May.

Within the last month the Pennsylvania System has increased its wages to the amount of $7,000,000 to telegraph operators, maintenance of way employes, machinists, employes in the motive power department, clerks in the transportation department and accounting department, &c.

The Baltimore and Ohio and the New York Central, though this fact does not appear upon the record, have, within the last week, made another very large increase in their wages

to employes of the same general description. My impression is, although it is only an impression, that in the case of the New York Central it will amount to something like $4,000,000 a year, and in the case of the Baltimore and Ohio to something like $2,500,000 a year.

The true significance, however, of the results of the first nine months' operation is not disclosed by the bare statement that net operating income has decreased $57,000,000, because, if it be a fact that during that period those properties have not been maintained to the extent that they should, it is perfectly clear, that to the extent of the deferred maintenance, the net operating income and the net corporate income is overstated.

The maintenance figures which are available for the first nine months on the 38 systems—and we have substantially the same result for the three systems—show that there has been an increase in total operating revenues of approximately 9 per cent. and an increase in maintenance of way expenditures of 6.3 per cent. Of course, operating revenues have increased not only by reason of the increase in traffic, which factor would necessarily cause an increase in maintenance expenses, but operating revenues have also increased owing to the increases in rates which have been allowed by the Commission, and that factor, therefore, would not cause a corresponding

increase in the maintenance expenses. Therefore, we cannot expect, nor do we suggest that where there have been increased rates, the maintenance ratio should increase in the same proportion as the ratio of total operating revenue; but there is a disparity of 50 per cent., one being 6 per cent. and one being 9 per cent., in the ratio of increase, and when we remember also—and this, after all, is the all-important thing—that the dollar expended for maintenance in 1917 does not purchase either the labor or wages which the dollar expended in 1916 purchased, it is quite clear that these percentage figures show that the maintenance of these properties is not being kept up to its proper standard.

THE CHAIRMAN:—Mr. Patterson, do you include in that maintenance of equipment?

MR. PATTERSON:—No, Mr. Chairman; I am speaking first only as to maintenance of way

THE CHAIRMAN:—Only as to maintenance of way?

MR. PATTERSON:—Yes; maintenance of way, that is all.

THE CHAIRMAN:—And in your revenues are you including passenger revenues?

MR. PATTERSON:—I beg your pardon?

THE CHAIRMAN:—In your revenues, the figures of revenue, are you including passenger revenue?

MR. PATTERSON:—The figures of the total increase?

THE CHAIRMAN:—Yes.

MR. PATTERSON:—Oh, yes, sir.

THE CHAIRMAN:—Yes?

MR. PATTERSON:—Undoubtedly.

THE CHAIRMAN:—Has that revenue fallen off through the cutting out of passenger trains?

MR. PATTERSON:—No, sir; there has been a tremendous increase of passenger revenues. I am speaking for the Pennsylvania on that, and I assume that is so for all the lines. There has been a tremendous increase.

THE CHAIRMAN:—You have been carrying more poeple on fewer trains?

MR. PATTERSON:—Yes, sir; and I think it is a very serious problem, though I do not speak with any authority, as to whether the passenger business is not growing to such an extent as to be a positive detriment. I do not mean a detriment to the railroads, but I mean a detriment to the interests of the people.

COMMISSIONER MCCHORD:—Has any thought been given to the question of increased passenger rates?

MR. PATTERSON:—I have heard that discussed a number of times. There are two practical difficulties in the way of that. There is, first, the difficulty of securing the increases through the state

authorities. There are the 2-cent fare laws in certain states. You are more familiar than I am with the litigation that has grown out of those laws. Your Commission suggested in 1913 that the passenger rates be readjusted, that is, that the passenger business was not bearing its full share of the expense of transportation, and efforts were made by the Eastern carriers to secure additional revenues from the passenger service. We have secured those revenues, to an inadequate extent and in part only. In one particular state up to the last, I think, two months, or perhaps three months, the action of that state has prevented those increases from going into effect and has not only been to deprive the carriers of the increase in rates on the state business, but, by reason of the geographical location of the state itself, has interfered substantially with the collection of the increased revenues on interstate business.

There is also the second question which I think everyone would have to very carefully consider in connection with that passenger situation, and that is the general feeling amongst people—it may be an entirely mistaken feeling; it may not be a proper one, but it is there—of unwillingness to pay increased passenger rates, even though, if they are intelligent people, they must realize that, in many cases they must pay the increased freight

rates in the increased prices of commodities. When however, they are called upon to pay directly through the passenger rate instead of indirectly through the freight rate, there is bitter opposition. That is another question which would have to be considered, I do not mean to suggest that it is a controlling reason; but I may say to you, Mr. McChord, that that question is being given careful consideration.

COMMISSIONER AITCHISON:—When you speak of proposed advances yet to be asked for, you do not contemplate the passenger advances at the present time?

MR. PATTERSON:—Oh, no. These advances we are talking about now are simply a completion of the 15 per cent. program.

COMMISSIONER AITCHISON:—But do I understand, when you said that you would have to come back for further advances, that you did not have in mind that you would have to come back to us for passenger fare advances?

MR. PATTERSON:—I cannot state positively whether they will or not. I would say probably not. I do not know what might happen.

THE CHAIRMAN:—In your passenger revenues, do you include that derived from the movement of troops or their impedimenta?

MR. PATTERSON:—I presume so, but I do not know. How about that, Mr. Shriver?

MR. SHRIVER:—They are included up to the date of the closing of our statistics.

THE CHAIRMAN:—And you also include it whether it has been paid or not?

MR. PATTERSON:—Oh, yes. I beg your pardon. I thought you meant as to its apportionment between freight and passenger.

THE CHAIRMAN:—I did. I asked you two questions.

MR. PATTERSON:—It is all going into the freight revenue, I presume, as to the impedimenta, if carried on a passenger train. It does not if it is carried on a freight train?

MR. SHRIVER:—No.

MR. PATTERSON:—Now, these maintenance figures which I have given you, and which are derived from an examination of the records for the first nine months of this year, are confirmed in Bureau Exhibit No. 1, page 20, showing a comparison of the maintenance ratio for the year ending December 31st, 1917, with the maintenance ratios of the years ending June 30th, 1916, and June 30th, 1915, and there is also in that exhibit a comparison for those same periods, of the actual work in maintenance of way done by the carriers during the first nine months, and which will be shown during the last three months of this year, 1917. Those figures show that there has been a decrease in the installation of ballast of 48 per

cent., in ties of 1.7 per cent., and in rails of 36 per cent.

The evidence contained in these figures, remembering also, when we come to talk about the maintenance ratio, the tremendous decrease in the purchasing power of the dollar, is corroborated by the testimony of Mr. Rea, Mr. Willard, Mr. Elliott, and Mr. Hobbs, all of whom testified as to the failure on the part of their respective companies to keep up their standard of maintenance of way and maintenance of equipment, the maintenance of equipment figures Mr. Chairman, as I recall it, being an increase of about 11 per cent. as compared to an increase in total operating revenue of 9 per cent. These four gentlemen testified as to the facts with respect to their various properties, Mr. Rea estimating that the amount of the deferred maintenance on the Pennsylvania was $5,000,000; Mr. Willard estimating for the Baltimore and Ohio from $1,000,000 to $1,500,000; Mr. Elliott estimating $800,000 for the New Haven, and Mr. Hobbs estimating $320,000 for the Maine Central.

THE CHAIRMAN:—That being an estimate of the annual rate?

MR. PATTERSON:—No, sir; that is an estimate of the amount of the deferred maintenance in these properties; that is to say, that is the estimate of

the amount of money that should be expended by these companies at the present time.

MR. BOND:—That is an estimate only for nine months.

MR. PATTERSON:—I know—in order to bring the properties up to their proper standard.

Bearing in mind the specific finding by this Commission that these properties were not over-maintained in 1916, it is quite clear that they are under-maintained at the present time, and that that maintenance must be made up at some time in the future, and it ought to be made up as soon as possible, because, as Mr. Willard pointed out, the question of getting men and materials is going to grow more difficult every day.

Our second comparison so as to show this increased basis of cost upon which we are operating is the figures for the year ending June 30th, 1917. Those figures show that there has been an increase in total operating revenues for the 38 systems of $154,000,000, and that there was a decrease in net operating income of $45,000,000, notwithstanding an increase in property investment of $200,000,000, and the return on property investment is lower than the return for the years 1906, 1907, 1910 and 1916, and identical with or higher than the returns for any of the other fourteen years.

The average dividend paid by the 38 systems during the year ending June 30th, 1917, was 4.49 per cent., which is less than the average dividend paid by those same railroads in six of the preceding eighteen years; and one thing we should always bear in mind, that, measured by the purchasing power of money, the dividend of 4.49 per cent. paid in that year ending June 30th, 1917, was lower than any dividend which has ever been paid by these companies at any time since 1900. I have not gone back of 1900, and I do not know whether it is lower than the dividends paid prior to that time.

In the case of the combined three systems, we have substantially the same result as in the case of the 38 systems, with the exception that the return on property investment in the case of the three systems is lower than in eight of the preceding eighteen years, instead of in four as in the case of the 38 systems.

COMMISSIONER ANDERSON:—Was that 4.49 per cent. dividend on capital stock or return on property?

MR. PATTERSON:—Dividend on capital stock. The return on property was 5.71 per cent., I think.

COMMISSIONER ANDERSON:—How much of that $200,000,000 was derived from new capital furnished, and how much from excess earnings?

MR. PATTERSON:—I can tell you that, when I reply. I have not got that on my notes. It appears on the face of the exhibits, and when I come to make my reply I will deal with that question.

The carriers have prepared an estimated income account for the calendar year 1917 as compared with the previous years. That estimated income account shows that there will be an increase of $161,000,000 in total operating revenues in the 38 systems, and notwithstanding that tremendous increase in gross, there will be a decrease in net operating income of $81,000,000.

So far as the Baltimore and Ohio Railroad Company is concerned, under its present basis of expense and present basis of rates, that company, at the end of the calendar year, if I understand Mr. Willard's testimony correctly, will not only not have any surplus, but will not even earn its present moderate dividend of 5 per cent.

The net corporate income of the Pennsylvania System will, if the estimate is correct, have fallen on December 31st, from $82,000,000 during the calendar year 1916 to $61,000,000 during the calendar year 1917, and after the payment of an average dividend of 6.48 per cent. will have a surplus on total capital obligations of $1,300,000,000, of only 1.6 per cent.

The New York Central net corporate income will have fallen from $74,000,000 as it was in 1916 to

$39,000,000 in 1917, and after the payment of its average dividend of 5½ per cent., will have a surplus on total capital obligations of $1,400,000,000 of only 1.3 per cent.

Now, what I have said to you is in no sense an argument. It is a mere statement of facts which leads irresistibly to the conclusion that the public interests—yes, even the public safety—demands that these railroads be permitted to increase their rates.

Those facts may be summarized in this way:—

First, an increased basis of cost of $277,000,000, as against an increased basis of revenue of $97,000,000.

Secondly, persistent decreases in net operating income, notwithstanding tremendous increases in total operating revenues, and substantial, if not large increases in property investment.

Third, a decrease in the supply of efficiency of labor, a situation which is being intensified daily, and which, if persisted in, will increase the cost of operation in the future to a greater extent than it has in the past.

Fourth, the existence of deferred maintenance in these properties at a time when the public interest demands more than ever that these properties should be maintained at their highest standard.

Fifth, an inability on the part of the carriers to sell stock, thus weakening, and seriously weakening, the general financial structure of the carriers.

Sixth, inability to make improvements which are demanded by the traffic of today, and which will be demanded by the traffic of tomorrow.

I have not said anything about the close and intimate relation which this rate increase bears to the successful prosecution of the war. That matter has been dealt with at length by Mr. Willard and by Mr. Warburg, who are far better qualified than I am to speak authoritatively on that subject. They have told you, in substance, that increased rates are necessary in order to aid the Government in the successful prosecution of this war.

There is one thing, however, which I do desire to say in conclusion, and I desire to say it with all the earnestness that lies in my power, and to say it to you who are so keen to do what is the right thing, and that is this, that the question of increased revenues to the Eastern carriers has ceased to be a question of economics, and has become now a vital part of the entire problem of national defense.

THE CHAIRMAN:—Mr. Patterson, before you take your seat, let me ask you about the deferred maintenance of equipment. Is there any substantial falling off in the maintenance of equipment?

MR. PATTERSON:—There is some failure to re-

shop and failure to paint. That is dealt with at length in the testimony of Mr. Rea. You will note that the increase of total operating revenues is 9 per cent. with an increase of 11 per cent. in maintenance of equipment expenses, but you will remember that the prices of labor and materials are at least 25 per cent., and probably 30 per cent., higher than they were in 1916. That corroborates the testimony of Mr. Rea as to the failure on the part of the carriers to shop their equipment with the regularity they have in the past. That, of course, will have to be made up in the future. The unfortunate part of it is that the more it is postponed, the more expensive it gets, and that progressively.

THE CHAIRMAN:—Are there not fewer bad order cars on the Pennsylvania now than usual, and than is ordinarily the case?

MR. PATTERSON:—I gave some figures as to the bad order cars. As far as equipment is concerned, it is not a question so much of bad order. It is more largely a question of failure to paint. The figures which we were asked to file show, sir, that the average number of freight locomotives in shop or awaiting shop is 14.2 per cent., September, 1917, over September, 1916, and the average number of freight cars in shop or awaiting shop is an increase of 44.86, or a percentage of increase of 24 per cent.

THE CHAIRMAN:—Those figures are for the Pennsylvania?

MR. PATTERSON:—Yes, sir; and they are in evidence.

THE CHAIRMAN:—Whom shall we hear next, Mr. Patterson?

MR. PATTERSON:—As far as the carriers are concerned, that is our opening. If any questions should come up about particular commodities, there will be a reply made to them.

CLOSING ARGUMENT OF MR. GEORGE STUART PATTERSON, ON BEHALF OF THE CARRIERS.

MR. PATTERSON:—With the permission of the Commission I will just take a few moments to refer in a desultory way to one or two suggestions that have been made here.

In reply to Commissioner Anderson's question, I beg to say the property investment, 1917 over 1916, is $200,390,000, of which $39,840,000 was paid out of income. The balance was paid out of capital. The increase during that period of time in total capital obligations was a little over $120,000,000, or $120,965,000. Those figures, of course, cannot be compared, because the capital out of which the improvements were made has been issued either prior or subsequent to making the improvements, and therefore it does not necessarily come within the year. In other words, the $120,000,000, plus the $39,000,000, do not make up the $200,000,000.

COMMISSIONER ANDERSON:—That means about $80,000,000 gone in from earnings?

MR. PATTERSON:—No, sir; it means $39,840,000.

I understood Mr. Thorne to say that the Pennsylvania System had, subsequent to 1910, about $350,000,000 out of income ——

MR. THORNE:—1907.

MR. PATTERSON:—1907?

MR. THORNE:—And it was not just out of income ——

MR. PATTERSON:—Oh, I beg your pardon; it includes everything.

MR. THORNE:—Out of earnings.

MR. PATTERSON:—Then it is from earnings, income or surplus?

MR. THORNE:—It is from earnings through income, surplus and otherwise. Mr. Rea and the rest of you conceded it when Mr. Rea was on the stand.

MR. PATTERSON:—Our figures are $185,000,000.

I do not propose to go into any discussion as to the legal right of the carriers, to earn a return on the amounts expended in property investment out of earnings or out of surplus. That matter is fully covered in the briefs which were filed in the valuation matter. It has been decided about thirty times by the different courts of this country, always one way. It is being decided that same way almost daily by different state commissions.

I find that I understated the testimony in connection with deferred expenditures on equipment, and I will ask the stenographer to note a reference to Mr. Willard's testimony on page 6344.

I may also say that the suggestion as to deferred maintenance on my part never contained the slightest intimation, and no intelligent person

could consider that it did, that there was no money available to make those expenditures. The reference to the deferred maintenance was simply for the purpose of showing, which is a fact, that the nine months' figure of net operating income was necessarily overstated to that extent.

The suggestion has been made that Congress can deal with this situation by repealing the pooling provisions of the anti-trust law and of the Interstate Commerce Act, or by providing for the loaning of money to the carriers. Of course, as has already been pointed out by several members of the Commission, that will not help the labor, material or fuel account.

COMMISSIONER AITCHISON:—Just a minute on that, Mr. Patterson. With respect to the pooling provision, may I ask what the attitude of the carriers is on that?

MR. PATTERSON:—I really do not know. I have no authority to speak for all the carriers. I would be very glad to tell you what my idea is.

As to the relation of surplus to total capital, it is perfectly futile to consider the capital stock alone, because then you might have two companies with exactly the same total capitalization, while one of them has a very high percentage of stock and the other a very low percentage of stock. You would have there for each carrier, a different class of surplus, as expressed in items of percentage. The only measure, of course, is the total capitalization ——

MR. THORNE:—Can you name one financial house that uses it?

MR. PATTERSON:—Some suggestion was made here that net earnings were 30 per cent. higher in September than in April. The percentage is also very much higher than in February; but that will not help the situation if we are correct in our belief that the net return at the end of the calendar year 1917 will only be 5.2 per cent., which is considerably less than the danger point indicated by the Commission in the 1914 case.

Mr. Reynolds referred in his argument, as I understood him, to the competition that his clients have with the artificial ice men. Of course the artificial ice man has had the price of his material tremendously increased, such as ammonia and coal, and he has also had his freight rates on coal and, I presume, on ammonia increased.

What we are trying to do in this particular proceeding is to bring up the remaining one-third—I use those figures roughly—of the traffic which was not increased last spring. There does not seem to be any particular reason why they should not pay the same rate or be subject to the same increase as that traffic which was raised last spring.

As I have already said once before, this morning, this increase will not be sufficient to meet the

situation, and the carriers will be obliged to make applications to file tariffs asking for further increases; and in so doing they will pursue the plans which they have pursued heretofore and which they believe meets with the entire accord of the general shipping public and the approval of the country, by asking for a general percentage increase on class and commodity rates except in respect to those commodities where, for reasons which are well known to the Commission, it is necessary to make an increase in cents per ton.

I want to say just this one word in conclusion, and that is that there has been no suggestion, on the part of the carriers, or on the part of anyone representing the carriers, that the carriers desire to make any profits out of this war. What the carriers do desire, however, and what the carriers insist is the right thing to do, is that the general burdens of the war shall be universalized; that they shall not be localized, and particularly, when the effect of the localization of that burden is as injurious to the Government and as injurious to the general interests of this country, as it is, to the interest of the carriers themselves.

COMMISSIONER ANDERSON:—I would like to ask of you substantially the same question that I asked Mr. Throne. There has been a lot of evidence put in here as to the attitude of the investor as

distinguished from what you might call the internal economic condition of the carriers. In the last sentence of your remarks you said, in substance, that the question was not an economic question as affecting the condition of the carriers, but was a question of general public interest. I did not quite understand what you meant, and I would like to get clear in my mind before the hearing is closed your attitude and that of the carriers whom you represent on the distinction between what I might call the stock market credit and the sound condition of the carriers apart from credit and additions and improvements which are obviously necessary and ought to be provided out of new capital.

MR. PATTERSON:—I do not think I understand, sir, the specific question that you want me to answer.

COMMISSIONER ANDERSON:—Do you think that the rates now existing, taking into account the past nine months and the reasonable probabilities for the future apart from the conditions of credit and the getting of new capital for additions and improvements, are adequate to keep the carriers in sound condition, carrying the fixed charges, including proper allowance for depreciation and obsolescence, or are they inadequate?

MR. PATTERSON:—I am absolutely certain—it is the only thing of which I am as certain as of the

mere physical fact of existence—I am absolutely certain that the existing rate base is not anywhere near adequate to take care of the carriers in the conditions which you have described, and that it would be a great public menace to have that situation continue. I have not the slightest doubt about it.

COMMISSIONER ANDERSON:—You regard this record as demonstrating that if the carriers did not need another dollar for additions and improvements and had no occasion to consider the attitude of the free man with the free dollar in his pocket that the present rates are inadequate to keep the existing facilities in proper and efficient operation and pay reasonable dividends and fixed charges?

MR. PATTERSON:—Absolutely and unqualifiedly.

COMMISSIONER ANDERSON:—I wanted your attitude on that.

COMMISSIONER AITCHISON:—You have mentioned several times, Mr. Patterson, the necessity for a further application for increases. That was suggested to us at the informal conference which we had here as being of considerable amount.

MR. PATTERSON:—Yes, sir.

COMMISSIONER AITCHISON:—Do you not think it would be well if you are prepared to give the Commission some idea, and the country some

idea, of what further increases you believe are necessary—something more definite?

MR. PATTERSON:—Of the amount necessary?

COMMISSIONER AITCHISON:—Yes.

MR. PATTERSON:—Well, the figures are jumping by leaps and bounds almost every day. We have had within the last week $7,000,000 more added to the Baltimore and Ohio and the New York Central. We have not got yet the increased price of coal that is going to come in in November and which will run from 30 to 45 cents a ton.

COMMISSIONER MCCHORD:—And if it continues to come in by leaps and bounds, day after day, then the rates must be raised accordingly.

MR. PATTERSON:—They must be enough to take care of the ——

COMMISSIOER MCCHORD:—The sky is the limit. Do you think the rates must go to that extent?

MR. PATTERSON:—The rates must go just as high as the increased costs go. That is the only way in which the carriers can get the revenue.

COMMISSIONER AITCHISON:—Are you prepared to give us any idea as to when your next application will be and whether it will be a 15 per cent. application or 20 or upwards, in a general way?

MR. PATTERSON:—No, sir. I suppose there cannot be any question that the application would have as a minimum a 15 per cent. general increase

on class and commodity rates, and possibly 10 cents on coal, coke and ore.

COMMISSIONER AITCHISON:—That is, 15 per cent. of the increased rates?

MR. PATTERSON:—15 per cent. of the increased rates. And those figures will not come anywhere near—will not approach in the slightest degree, the increases which the other government price fixing boards have made within the last month in Washington.

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